

# EXHIBIT 4

DEF 14A 1 a2016schedule14a.htm SCHEDULE DEF 14A

## SCHEDULE 14A

## INFORMATION REQUIRED IN PROXY STATEMENT

## SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)  
of the Securities Exchange Act of 1934  
(Amendment No. )

Filed by the Registrant ☒ x  
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 Check the appropriate box:  
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☐ Preliminary Proxy Statement  
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 ALLEGIANT TRAVEL COMPANY

(Name of Registrant as Specified in its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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We have the longest period of continuous profitable quarters in the domestic airline industry, 52 quarters through December 31, 2015. We have been named airline of the year a number of times based on financial performance by a leading industry publication (Aviation Week), including the best overall performance in the world during the five years 2009-2013, with an overall average score of 76.9 versus the second place total of 71.8 during this period. In the most recent year in which airlines were rated, 2014, our overall score was 78.4. This past year, 2015, we led all U.S. carriers with an operating profit margin of 29.4 percent.

### **Compensation Philosophy and Objectives**

The primary objectives of the compensation committee of our board of directors with respect to executive compensation are to retain the current executive team, to attract additional talented people, to provide annual cash incentives upon achievement of measurable corporate performance objectives, and to assure executives' incentives are aligned with shareholder value creation. To achieve these objectives, the compensation committee maintains compensation plans that tie the cash bonus portion of executives' total compensation to our financial performance (specifically to our operating margin). Overall, the total compensation package is intended to create an executive compensation program: (i) providing for base compensation at below market levels, and (ii) rewarding our named executive officers for profitable performance and increased share value.

Our chief executive officer, Maurice J. Gallagher, Jr., has a substantial equity position. Historically, he has chosen to serve without a base salary and expects to continue to serve without a base salary into the future. In 2015, the compensation committee included Mr. Gallagher in the allocation of the cash bonus pool and also granted him stock-based awards to reward him for our company's industry-leading profit margins. We expect Mr. Gallagher will participate in future equity grants and the annual cash bonus each year at the discretion of the compensation committee from year to year, and the amounts granted to him will depend on our profitability in relation to our expectations and other relevant factors.

Although we do not benchmark total compensation or any material element of compensation against any other particular company or group of companies, we do consider executive compensation and operating margin levels at other airlines and on-line travel agencies in gauging the competitiveness of each element of the compensation package for our executive officers. In particular, in determining cash bonus allocations and equity grants, we compare our executive compensation against averages of other airlines and on-line travel agencies in base salary levels, cash bonus amounts, cash bonus as a percentage of base salary, value of equity awards, and total compensation in dollar amounts and in relation to the operating margin achieved by each company. As we are focused on low costs as a company, our philosophy is to provide for lower than industry prevailing rates of base compensation but with opportunity to benefit from profitable operations in the form of cash bonuses and from stock value increases through equity awards. The compensation philosophy employed has been implemented by us without use of any outside compensation consultants.

As our shareholders approved our executive pay policies at our 2014 shareholders meeting, we have not implemented any changes to our pay policies in response to the shareholder vote.

Senior management makes recommendations to the compensation committee with respect to the total amount of cash bonuses to be paid, the allocation of the cash bonus pool among officers and employee groups, and granting of stock-based awards to executive officers. The compensation committee typically asks Mr. Gallagher to participate in its deliberations concerning approval of cash bonuses payable and stock awards granted. The compensation committee members consider the recommendations from management, and also draw on the committee members' and the chief executive officer's substantial experience in managing companies, in approving bonus levels and stock-based awards.



We structure our executive compensation program to deliver the majority of remuneration through incentives that drive both operating results and long-term value. During 2015, the substantial majority of each executive officer's pay was at risk as more than 80 percent of each executive's pay was payable under the cash bonus plan or long-term stock incentives. The mix of components comprising 2015 compensation for the named executive officers in this proxy statement is illustrated below:

Name & Principal Position	Base Salary	Cash Bonus	Long-term Incentive	All Other Compensation
Maurice J. Gallagher, Jr., Chairman and Chief Executive Officer	—	82.4%	16.9%	0.7%
Scott Sheldon, Senior Vice President and Chief Financial Officer	13.4%	43.5%	41.1%	2.0%
Jude I. Bricker, Senior Vice President, Planning	13.3%	43.4%	41.1%	2.2%
Scott M. Allard, Senior Vice President, Chief Information Officer	15.6%	42.6%	39.9%	1.9%
Gregory C. Anderson, Vice President and Principal Accounting Officer	17.2%	40.8%	40.8%	1.2%

### Compensation Components

Compensation is broken out into the following components:

**Base Salary.** Mr. Gallagher does not receive a base salary. As no other executive officer has a base salary of \$200,000 or more, the base salary levels of other officers do not require compensation committee approval. These base salary levels are a function of our low cost strategy. Our named executive officers receive below market guaranteed pay but can profit from cash bonuses and equity awards dependent on the profitability of the Company, aligning their interests with those of our shareholders.

**Annual Discretionary Incentive Bonus Program.** We structure our annual bonus compensation program to reward named executive officers, other management employees (our vice presidents, director level employees and managers) and other employees for our successful performance, and each individual's contribution to that performance. Depending on our profitability, cash bonuses may constitute a significant portion of our employees' total compensation. No cash bonus is earned unless our operating income exceeds 5 percent of our revenue for the year and, in that event, the total cash bonus pool will not exceed 10 percent of operating income. The final annual bonus pool amount is determined by our compensation committee after consideration of management recommendations and after the completion of the audit of our financial statements. Consistent with its determinations in previous years, the compensation committee approved a total bonus pool equal to approximately 7.0 percent of our operating income in 2015. The allocation of the bonus pool among groups of eligible employees and, for executive officers and other key employees, the division of the incentive compensation between cash and equity grants, are approved by the compensation committee without regard to any objective, predetermined individual performance criteria. The compensation committee relies significantly on the recommendation of our chief executive officer with respect to the allocation of the bonus pool among our executive officers and other employee groups, and equity grants for our officers and managers.

For financial statement reporting purposes, the bonus is accrued throughout each year based on an estimated payment amount. Under our program, our named executive officers are eligible to share in the bonus pool in amounts determined subsequent to the end of each year. Compensation committee approval is required for bonuses payable to our chief executive officer and any other executive officers with an annual base salary of \$200,000 or more (there are none at this time). Generally, payments under this cash bonus program are contingent upon continued employment through the actual date of payment.

The compensation committee considered our historic profitability in 2015 in determining the amount of the bonus pool and the bonuses payable to our chief executive officer and the allocation of bonuses among our other executives and employees. In light of our unprecedented profitability, the compensation committee approved an increase of the cash bonus pool from approximately \$14.4 million in 2014 to \$25.5 million in 2015, a 77 percent increase compared to a 136 percent increase in operating income. In our service-based business, each employee's efforts contribute to our profitability. As such, all of our employees participate in the cash bonus pool other than our pilots whose pay is based on pay bands dependent on our profitability. The cash bonus pool for 2015 included approximately \$6.0 million in cash bonuses paid in December 2015 to all employees below vice president in recognition of our exceptional profitability and the contributions of all employee groups. The balance of the cash bonuses is paid in the first quarter each year. Cash bonuses for the entire company were increased by approximately 77 percent year over year and cash bonuses for our senior management group (vice presidents and above) increased by approximately 79 percent year over year. Employees other than our named executive officers received approximately 81 percent of the total cash bonus pool for 2015.



The compensation committee recognized that our chief executive officer, who serves without base salary and whose cash bonus amounts in prior years have not exceeded cash bonus amounts paid to our other most senior executive officers, has been underpaid over the years. With these factors in mind and an exceptional performance in 2015, the compensation committee approved a \$2,850,000 cash bonus for our chief executive officer in 2015. With this 2015 cash bonus, the average annual bonus paid to our chief executive officer over the last three years was approximately \$1,100,000. Based on most recent publicly available disclosures within our general industry (the transportation sector), the median CEO base salary is approximately \$575,000 and the median cash incentive is approximately \$450,000 for total median cash compensation of \$1,025,000. The average of the cash payments to our chief executive officer over the last three years is just above this total median cash compensation and is substantiated by our sustained and growing profitability over this period.

Although the cash base salaries combined with the bonuses of our other named executive officers exceed those of similar officers in other companies within our general industry grouping, our compensation committee believes this to be warranted in light of our record profitability in 2015 and our total shareholder return performance well in excess of the average of that measure for those other companies.

**Long-Term Incentive Program.** We believe long-term performance is achieved through an equity ownership culture that encourages long-term performance by our executive officers. Our chief executive officer maintains a substantial equity stake in our company and is our largest shareholder. The compensation committee has decided to provide all of our executive officers with grants of stock-based awards to reward them for the successful operating results of our company, and to further incentivize them for future performance. In addition, each of our named executive officers more than satisfies our newly established minimum stock ownership guidelines, assuring alignment between our executive officers and shareholders.

The compensation committee considers stock-based awards as part of the discretionary incentive program to our executive officers each year at the time the cash bonus allocations are finalized, after the completion of the audit for the year. Strike prices for options and SARs are established based on the market value of our stock at the time of grant when the final compensation decisions are made for the year. This will typically occur in February or March following the end of each year. Other than this annual evaluation of stock-based grants, we would likely only consider additional stock-based grants coincident with a new hire or promotion of management personnel. In February 2016, we granted equity awards consisting of restricted stock to our named executive officers as part of their 2015 compensation package. As all of these equity awards provide for a three-year vesting period with vesting occurring at the end of each year, the compensation to the executive officers remains at risk subject to their continuing employment with us. In February 2015, equity grants were awarded to executive officers as part of their 2014 compensation package. These grants of stock options and stock appreciation rights have a five-year term to further encourage our officers to seek stock value appreciation over this relatively short period of time (in comparison to the ten-year terms of options and stock appreciation rights granted by many other companies). The five-year term of these equity awards also reduces the cost of these equity grants on our income statement.

In determining year-end 2015 incentive compensation for all executive officers, the compensation committee approved payment to our named executive officers (other than our chief executive officer) of approximately 50 percent in cash and 50 percent in the value of equity grants. Despite a higher cash bonus for our chief executive officer for the year, the compensation committee approved an equity grant for our chief executive officer in the same amount as for our other most senior executive officers.

As equity grants have been made to our executive officers each year, the vesting schedule serves as incentive to remain with the Company because employment must continue from year to year to achieve additional vesting for equity grants within the past three years. Our compensation committee believes this has been particularly effective with the significant stock price increases from year to year. Although the compensation committee has the authority to accelerate vesting of equity awards upon termination of employment or a change in control, our existing equity grant agreements do not provide for acceleration of vesting except in the event of death or disability, and our proposed 2016 Long-Term Incentive Plan will generally preclude vesting of performance-based awards beyond pro-rata or actual performance in the event of a change in control.

Our compensation committee determines the amount of equity grants in an attempt to provide meaningful incentives for the officers, but with consideration to the financial impact on our operating results. We have one of the lowest fixed cost compensation structures in our industry, less than 20 percent of total pay, on average, has been paid by way of base salary for the past three years. The compensation committee rewards our executives primarily with cash bonuses and equity awards which typically make up the remaining 80 percent - generally half in cash bonuses and half in equity awards. We have used this approach for many years. This approach has fostered a culture of performance, in the opinion of the compensation committee and the board, and aligns the interests of our executives with our shareholders as the amount of equity awards is tied to the amount of cash bonus which is based on our profitability.



## Compensation of Named Executive Officers and Other Information

The following table shows the cash compensation paid or to be paid by us, as well as certain other compensation paid or accrued, during the fiscal years ended December 31, 2015, 2014 and 2013 to our named executive officers. The table does not include a column for change in pension value and non-qualified deferred compensation earnings as none of the named executive officers received any such compensation in the years disclosed.

Name and Principal Position	Year	Salary	Bonus (1)	Stock Awards (2)(3)	Option/SAR Awards (2) (4)	All Other Compensation (5)	Total
Maurice J. Gallagher, Jr. Chief Executive Officer	2015	\$ —	\$ 2,926,633	\$ 600,071	\$ —	\$ 23,782	\$ 3,550,486
	2014	—	547,061	299,970	210,253	20,934	1,078,218
	2013	—	—	249,974	250,046	—	500,020
Scott Sheldon Senior Vice President, Chief Financial Officer	2015	195,000	633,805	600,071	—	29,621	1,458,497
	2014	195,000	518,654	299,970	210,253	22,653	1,246,530
	2013	195,000	470,000	300,034	200,022	7,150	1,172,206
Jude I. Bricker Senior Vice President, Planning	2015	195,000	633,803	600,071	—	32,121	1,460,995
	2014	195,000	516,586	299,970	210,253	26,410	1,248,219
	2013	188,700	470,000	300,034	200,022	—	1,158,756
Scott M. Allard Senior Vice President, Chief Information Officer	2015	195,000	533,805	500,007	—	23,646	1,252,458
	2014	195,000	469,348	299,970	210,253	23,979	1,198,550
	2013	193,400	425,000	300,034	200,022	1,000	1,119,456
Gregory C. Anderson (6) Vice President and Principal Accounting Officer	2015	147,500	350,000	350,145	—	10,649	858,294

1. Cash bonuses are reported in the year to which they relate, and are paid no later than the end of the first quarter of the following year. The bonus column for 2014 and 2015 also includes special cash bonuses, paid in January of each year, with respect to the number of outstanding cash-settled SARs and stock options held by each named executive officer. These special cash bonuses were equal to the same per share amount of special cash dividends declared.
2. Equity grants constituting part of the incentive bonus plan are reported in this table in the year to which they relate.
3. Represents the grant date fair value of restricted stock awards granted, as calculated in accordance with stock-based compensation accounting standards. The fair value of each of these awards is based on the closing share price of our stock on the grant date. Although the table above indicates the full grant date value of the awards in the year in which the compensation is considered, the restricted stock granted vests over a three-year period.
4. Represents the grant date fair value of option and SAR awards granted, as calculated in accordance with stock-based compensation accounting standards. The fair value of these awards is determined under the Black-Scholes option pricing model. For the assumptions used for purposes of determining the value of the awards included in each year's compensation, please refer to Note 12 of our consolidated financial statements for the year ended December 31, 2015. Although the table above indicates the full grant date value of the awards in the year in which the compensation is considered, the options and SARs granted vest over a three-year period.
5. All Other Compensation consists of our matching contributions under the 401(k) plan for all officers, and cash dividends paid on shares of unvested restricted stock. No amount is included in this column for the value of all perquisites and personal benefits, including flight benefits, as these benefits did not exceed \$10,000 for any executive officer.
6. Mr. Anderson was elected as our principal accounting officer in January 2015 and served as director of accounting prior to that. Compensation for years prior to 2015 is not shown for Mr. Anderson as he did not serve as an executive officer during that period.